



December 22, 2017

Mr. Michael A. Wykes
Director, Personal Lines Actuarial
Auto-Owners Insurance Company
P.O. Box 30600
Lansing, Michigan 48909-8160

Re: Auto-Owners Insurance Company - Request for No-Action Letter

Dear Mr. Wykes:

Auto-Owners Insurance Company ("Auto-Owners") submitted a request for a no-action letter on July 14, 2017, pursuant to Section 374.018 RSMo.

Auto-Owners is requesting the Department allow an additional three (3) years in which to complete implementation of a transition plan that was initiated prior to the issuance of Bulletin 16-05. The transition plan is applicable to Auto-Owners homeowners' insurance program. More specifically, Auto-Owners is requesting the Department issue a no-action letter, stating it will take no enforcement action under Section 374.046 against Auto-Owners for potentially utilizing rates which might otherwise be deemed excessive, inadequate or unfairly discriminatory in contravention of Section 379.318.4 RSMo.

Section 374.018

The Missouri Department of Insurance, Financial Institutions and Professional Registration ("DIFP") has authority under section 374.018, RSMo, to issue no-action letters related to the business of insurance in the state. A no-action letter is defined as "a letter that states the intention of the department not to take enforcement actions under section 374.046 with respect to the requesting insurer, based on the specific facts then presented and applicable law, as of the date a no-action letter is issued." 374.018.1, RSMo Non Cum. Supp. 2015.

An insurer requesting a no-action letter is under an affirmative obligation to make a full, true, and accurate disclosure of all information related to the activities for which the letter is requested, and each request must include complete copies of documents and shall identify all provisions of law applicable to the request. A no-action letter is not considered a statement of general applicability that would require promulgation by rule. The insurer seeking a no-action letter from DIFP has an affirmative obligation to make a full, true, and accurate disclosure of all information related to the request for the no-action letter.

Regulatory Background

Rates for residential fire (homeowners) insurance in Missouri are subject to the provisions of Sections 379.316 to 379.361 RSMo. Under Section 379.318 RSMo., “rates shall not be excessive, inadequate or unfairly discriminatory.” Each of those rating standards has specific definitions prescribed to them within that same section of law.

As the insurance industry has evolved, particularly with regard to merger and acquisition activity and implementation of more advanced rating plans, a need arose for mechanisms to transition rating plan changes as those are applied to Missouri policyholders.

In response to industry requests, the Department issued Bulletin 11-02 on January 7, 2011. This Bulletin provided a regulatory safe harbor for insurers to utilize premium stabilization plans (also called rate capping or transitional rating plans). The regulatory safe harbor was based on a specific set of limited circumstances. Bulletin 11-02 was rescinded on January 12, 2015.

On February 2, 2016, the Department released Bulletin 16-03, a Request for Comment regarding Premium Stabilization. Subsequent to that Request for Comment, the Department held a public hearing again soliciting public comments regarding the use of premium stabilization rules or practices. On September 30, 2016, the Department issued Bulletin 16-05. In Bulletin 16-05, the Department provided a limited duration regulatory safe harbor under a set of specific pre-determined circumstances.

The Department recognizes other situations may arise that fall outside of the safe harbor extended in Bulletin 16-05. Nothing prevents or prohibits an insurer from seeking a no-action letter based upon circumstances which deviate from the pre-determined circumstances which form the basis of the regulatory safe harbor in Bulletin 16-05.

Discussion and Conclusion

Under Missouri insurance law, insurers are prohibited from charging rates that are excessive, inadequate or unfairly discriminatory. Consumers have a reasonable expectation they will be charged the same rate as other similarly situated insureds. Consumers also have a reasonable expectation the Department is monitoring to ensure they are not being charged excessive, inadequate or unfairly discriminatory rates. The Department recognizes significant changes in the market or rating plans can create significant rate disruptions which can result in negative impacts on policyholders. With the issuance of Bulletin 16-05, the Department addressed those limited situations or circumstances that may warrant the use of transitional rating plans, balancing the competing public policy interests expressed in Missouri law of ensuring the financial solvency of insurance companies and protecting consumers against rates that are excessive, inadequate and unfairly discriminatory. In striking this balance, the Department was careful to limit the use of transitional rating plans to a maximum of three years, when the disruption would result from an insurer’s revisions to its own rating plan.

Auto-Owners implemented its transition plan prior to issuance of Bulletin 16-05. The safe harbor provided in Bulletin 16-05 allowed insurers to use premium transition rules within certain limited time periods but did not include the ability for insurers to continuously extend previously filed premium transition rules by submitting new filings. The original transition plan filed by Auto-Owners contained no explicit limit on the number of policy periods needed to transition a policyholder to the full premium. Auto-Owners undertook its original rate action and transition plan without knowing Bulletin 16-05 would be issued. The company could not anticipate the parameters of the regulatory safe harbor that Bulletin 16-05 would set forth.

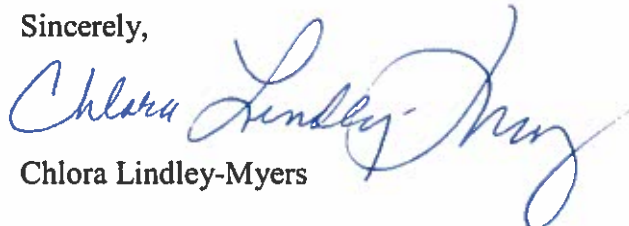
While the company's transition plan has now been in effect for three years, 35.6% of policyholders in the affected book of business still have not transitioned to the full premium. To move these policyholders to the full premium in one rating cycle would adversely impact Auto-Owners policyholders and potentially lead to significant policyholder displacement.

Therefore, for the reasons cited above, the Department affirms through the issuance of this no-action letter that it will not bring an enforcement action under Section 374.046 against Auto-Owners based on its implementation of the transition plan. Specifically, the Department states it will permit Auto-Owners an additional three (3) years in which to fully implement the transition plan as originally contemplated in Auto-Owners' homeowners' insurance product submission originally filed with the Department on November 23, 2014, and identified by SERFF Tracking Number AOIC-129619468 and which was subsequently modified through AOIC-130201270, AOIC-130686437 and AOIC-131162908. This additional time will ensure Auto-Owners insureds are not adversely impacted by an unplanned acceleration of the remainder of the transitional rate. It does, however, also provide finality to the transition rating plan so that all insureds will be charged the full, actuarially justified premium within three (3) years.

This no-action letter and enforcement relief granted herein reflect the interpretation and position of the DIFP based solely upon the facts as presented by Auto-Owners in its letter of July 14, 2017 and subsequent correspondence with the Department.

The relief issued by this letter does not excuse any other persons or insurers from compliance with any applicable Missouri laws. This letter does not create or confer any rights or obligations on the Department or other insurers subject to the provisions of section 379.318 RSMo. As with all no action letters, the relief offered in this no-action letter shall remain in effect as long as there is no change in material fact or law or the discovery of a material misrepresentation or omission made by Auto-Owners concerning the specific actions that are the subject of this letter.

Sincerely,



Chlora Lindley-Myers

CLM:aln